
Direct Commercial Sales Authorizations for Fiscal Year 2002 Overview

By
The Department of State

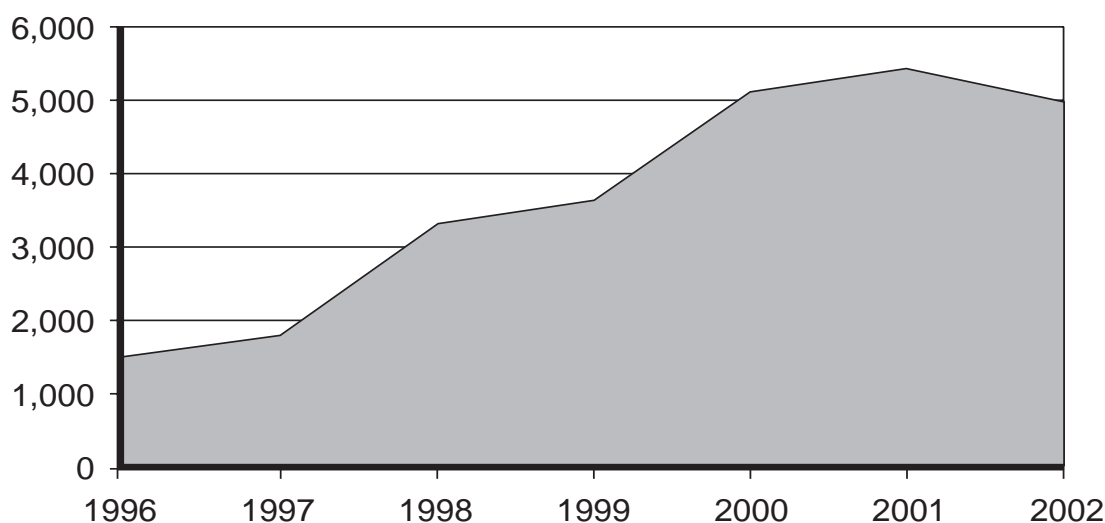
[The following are excerpts of a report prepared by the Department of State pursuant to Section 655 of the *Foreign Assistance Act*. The complete report may be found at www.pdtc.org.]

This report covers defense articles and defense services licensed for export during Fiscal Year 2002 under Section 38 of the *Arms Export Control Act*. It is provided pursuant to Section 655 of the *Foreign Assistance Act* and, as required by that Section, the report shows the aggregate dollar value and quantity of defense articles and defense services authorized to each foreign country. A separate portion reports just on authorizations for semi-automatic assault weapons.

In view of the growing role of manufacturing license agreements and technical assistance agreements, this year's report has a separate section that distinguishes more clearly between authorizations pertaining to defense articles and those associated with defense services. While the overall number of export licenses authorized under Section 38 has remained relatively constant at approximately 35,000 per annum since 1997, the number of manufacturing license agreements and technical assistance agreements submitted has increased since 1996 (Figure 1).



Figure 1
Manufacturing License and Technical Assistance Agreements for Fiscal Years 1996-2002



This trend appears to reflect the growing complexity of commercial defense trade as international joint ventures, co-production, licensed manufacturing and offset arrangements involving offshore assembly or procurement increasingly characterize major sales.

Part 1 of the report details approximately \$15 billion in licenses authorizing the export of defense articles, while Part 2 provides aggregate information by country on authorizations for defense services (i.e., agreements) totaling \$37 billion. Importantly, the value of authorizations provided under Section 38 for defense articles and defense services does not correlate to the value of articles actually transferred during this same time frame. Most munitions licenses issued for

articles shown in Part 1 are valid for four years and may be used throughout their period of validity to carry out the authorized export transactions.

Similarly, manufacturing license and technical assistance agreements set forth in Part 2 of the report cover a wide range of programmatic activities for multi-year periods (generally exceeding the four-year validity period of defense article export licenses). Because the scope of the Department's regulatory authority over such agreements continues for as long as these multi-year agreements remain in effect, authorizations furnished in fiscal year 2002 also include certain activities occurring in prior years. Such post hoc reporting generally is due to instances where the State Department directed an audit of an agreement (including the value of articles produced) in order to ensure compliance with the Arms Export Control Act and, in particular, the oversight by Congress mandated in Section 36 of the Act¹ with respect to major sales and manufacturing abroad of significant military equipment.

The results of such audits frequently disclose higher values than previously reported or initially projected by U.S. defense firms owing to a variety of factors, including extensions in the validity of agreements well beyond the original time frame envisaged. Authorizations under Section 38 in fiscal year 2002 continued to center principally on a relatively small number of friends and allies of the United States. During this period, defense trade with two major allies, the United Kingdom and Japan, reflect a large portion of the dollar value of all authorizations furnished under Section 38 (i.e., the overall DCS program). In past years, the United Kingdom and Japan have been the largest cooperative partners of the United States in relation to defense trade carried out under Section 38 (Table 1).

Table 1			
Defense articles Authorized	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
Japan	\$3.6	\$2.6	\$3.0
United Kingdom	\$2.5	\$3.3	\$2.6

Part 3 is a separate report, pursuant to P.L. 107-228, that covers defense articles (that are firearms controlled under category I of the United States Munitions List) that shows the country, aggregate dollar value and quantity of semi-automatic assault weapons, or spare parts for such weapons, the manufacture, transfer, or possession of which is unlawful under 18 USC 922, that were licensed for export during fiscal year 2002.

1 Sales of major defense equipment valued at \$14 million or more or other defense articles and defense services valued at \$50 million or more, and technical assistance and manufacturing license agreements involving the manufacture abroad of significant military equipment, required notification to Congress before an export license may be issued.

U.S. Munitions List Categories

The categories of the U.S. Munitions List referenced throughout this report are as follows:

Category I	Firearms
Category IJ	Artillery Projectors
Category III	Ammunition
Category IV	Launch Vehicles, Guided Missiles, Ballistic Missiles, Rockets, Torpedoes, Bombs and Mines
Category V	Explosives, Propellants, Incendiary Agents, and Their Constituents
Category VI	Vessels of War and Special Naval Equipment
Category VII	Tanks and Military Vehicles
Category VIII	Aircraft and Associated Equipment
Category IX	Military Training Equipment
Category X	Protective Personnel Equipment
Category XI	Military Electronics
Category XII	Fire Control, Range Finder, Optical and Guidance and Control Equipment
Category XIII	Auxiliary Military Equipment
Category XIV	Toxicological Agents and Equipment and Radiological Equipment
Category XV	Space Systems and Associated Equipment
Category XVI	Nuclear Weapons Design and Test Equipment
Category XVII	Classified Articles, Technical Data and Defense Services Not Otherwise Enumerated
Category XVIII	[Reserved]
Category XI	[Reserved]
Category XX	Submersible Vessels, Oceanographic and Associated Equipment
Category XXI	Miscellaneous Articles

[Editor's note: - Enumeration of some articles on the U.S. Munitions List (Part 21 of the International Traffic in Arms Regulation (ITAR) have been changed since this report - refer to ITAR, April 2003.]